C A L I F O R N I A

Dairy Review

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FEATURES

California Department of Food and Agriculture
A.G. Kawamura, *Secretary*

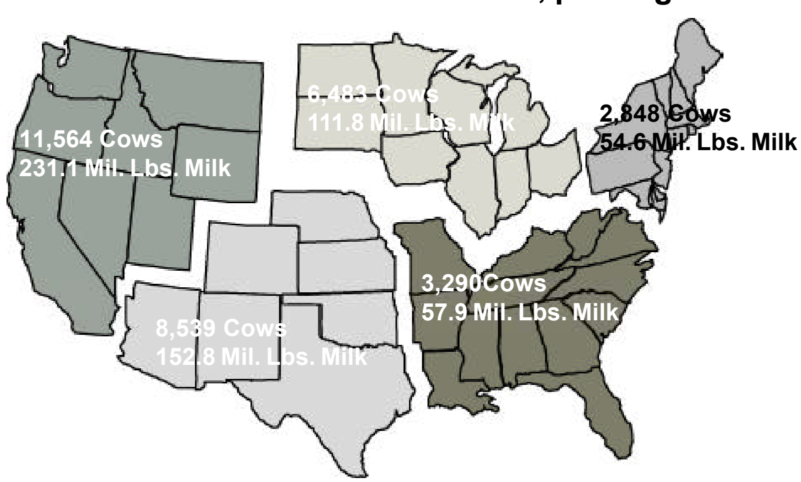
CWT Program Set to Begin Export Assistance Program

Export Program Will Help Sell 30 Million Pounds Of Cheese, 10 Million Pounds of Butter

Cooperatives Working Together (CWT), the farmer-funded milk reduction effort managed by NMPF, will soon implement an export assistance program, the third element of its multi-dimensional plan to strengthen and stabilize farmers' milk prices. The first two dairy-farmer oriented programs, the Herd Retirement program and the Reduced Production Marketings program, are already underway. The combination of those two programs is reducing U.S. milk supplies by approximately 700 million pounds. CWT's goal is to export approximately 30 million pounds of cheese during the next six months, and about 10 million pounds of butter, using a budget of $20 million. Those volumes represent about 500 million pounds of milk equivalent on a butterfat basis. Exports will occur as overseas buyers are found for the products, and as CWT's members bid to be compensated for selling cheese and butter to those importers.

(Continued on page 3)

CWT Program: Number of Cows Removed and Amount of Milk Not to be Produced, per Region



As reported in the Alliance of Western Milk Producers Special Report

November Milk Production

Milk production in California for November 2003 totaled 2.8 billion pounds, up 0.4 percent from November 2002, according to USDA. USDA's estimate for U.S. milk production for November 2003 in the 20 major dairy states is 11.6 billion pounds, down 0.1 percent from November 2002. Production per cow in the 20 major states averaged 1,503 pounds for November, 6 pounds above November 2002.

Minimum Class Prices

Statewide average hundredweight prices

Class	November	December	January
1	$16.34	$15.25	$ 14.01
2	$10.77	$10.89	$ 10.89
3	$10.61	$10.73	$ 10.73
4a	$10.08	$ N/A	$ N/A
4b	$12.50	$ N/A	$ N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Nov.	Dec.	Jan.
Phoenix, Arizona	$16.72	$16.19	$14.20
Southern California	$16.48	$15.39	$14.15
Portland, Oregon	$16.27	$15.74	$13.75
Northern California	$16.21	$15.11	$13.88
Boston (Northeast)	**$17.62**	**$17.09**	**$N/A**

Quota Transfer Summary

For October 2003, nine dairy producers transferred 14,948 pounds of SNF quota. October quota sales averaged $421 per pound of SNF (without cows), an average ratio of 2.51. For November 2003, seven dairy producers transferred 6,868 pounds of SNF quota. November quota sales averaged $433 per pound of SNF (without cows), average ratio of 2.57.

Alfalfa Update: December

Northern California: Premium and Supreme alfalfa was steady in light test throughout the month. Fari and Good alfalfa was steady to firm with most demand for clean dry cow hay. Retail and Stable hay sales were steady to firm with light to moderate demand.

Southern California: Premium and Supreme alfalfa not well tested with limited supplies. Fair and Good alfalfa was steady with moderate supplies. Retail and Stable hay was steady with light moderate supplies, seeing more hay moving out of barns. Interest from exporters was light. The market on new hay sales has slowed down considerably.

Supreme Hay Prices

Statewide average prices per ton

Area	11/28	12/5	12/12	12/17
Petaluma	$148-160	$160	——	——
North Valley[1]	$142	$140-160	——	$142-160
South Valley[2]	$142-165	$142-165	$145-168	——
Chino Valley	——	——	——	——

[1] North Valley is Escalon, Modesto and Turlock areas.
[2] South Valley is Tulare, Visalia and Hanford areas.

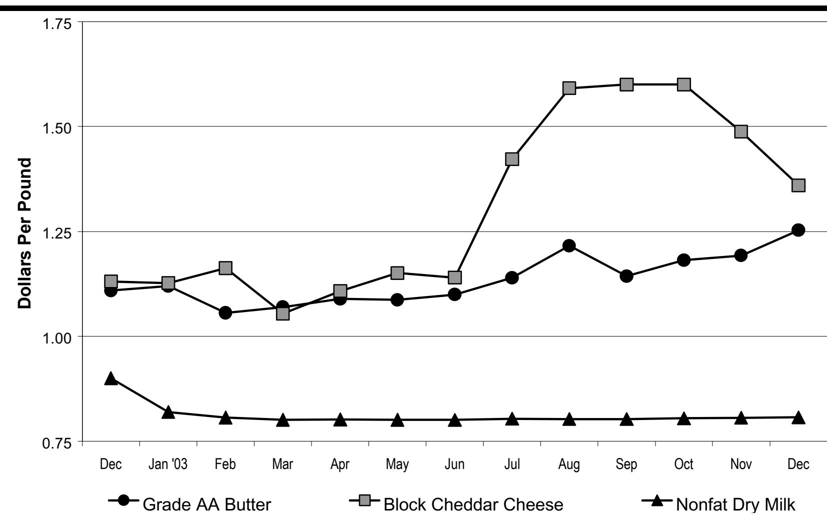
Alfalfa Hay Sales/Delivery

	November	December
Tons Sold[1]	119,486	84,308
Tons Delivered[2]	47,655	31,550

[1] For current or future delivery.
[2] Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, http://www.ams.usda.gov/marketnews.htm

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices



CWT Update -

Continued from page 1

CWT will operate the export assistance program during those periods when the U.S. price of cheese is $1.30 per pound or lower for cheese, or $1.10/lb. or lower for butter. Only CWT member organizations will be eligible to participate in the export program. CWT will accept offers from those organizations to export cheese and butter, and will award export bonuses based on the lowest bid prices. It is hoped that the export assistance program will help reduce domestic butter and cheese stocks, and provide some additional lift for farm-level milk prices, which are tied to the wholesale price of these products.

Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 5 cents per hundredweight assessment on their milk production from July 2003 through June 2004. The money raised by CWT's assessment – estimated at $54 million over 12 months – is being apportioned among three supply reduction programs to improve the national all milk price by a target of 36 cents per hundredweight.

For more on CWT's activities, visit the CWT website at www.cwt.coop.

Brucellosis Infected Herd In Wyoming

California has changed requirements for cattle originating from Wyoming because brucellosis infection has been confirmed in a cattle herd in Sublette County. All sexually intact cattle 18 months of age and older entering California must meet the following requirements:

- Official individual identification
- Negative official brucellosis test within 30 days prior to entry into California
- A Certificate of Veterinary Inspection
- An entry permit

Exceptions:
- Cattle originating from a Certified Brucellosis Free Herd
- Cattle moving directly to slaughter without diversion

These regulations become effective December 18, 2003. If you have any questions, please contact the Animal Health Branch at (916) 651-6278.

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2002, USDA estimates that overall milk production across the U.S. was down 0.6% in November, led by Texas' 8.9% growth in milk production (on 21,000 more cows and 115 more pounds per cow). California's estimated production was up 0.4% (on 37,000 more cows and 30 less pounds per cow). Among other western states, Arizona was up 1.9%; New Mexico up 6.2%; and Washington down 1.6%. Four of the top 10 states reported a decrease: New York -3.3%; Washington -1.6%; Minnesota -1.7%, and Pennsylvania -7.9%.

Quarterly: For the third quarter of 2003 compared to the second quarter of 2003, U.S. milk cow numbers were down 5.3% at 9.066 million, production per cow was down 4.8%; the net effect was a 5.5% decrease in milk production to 41.5 billion pounds. USDA projects that for the fourth quarter of 2003 compared to the third quarter of 2003, U.S. milk cow numbers will decrease 40,000 cows to 9.025 million cows, production per cow will be up 0.5%; the net effect would be a 0.2% increase in milk production to 41.6 billion pounds.

Milk Prices

Comparing the third quarter of 2003 to the second quarter of 2003, U.S. average milk prices were up $2.10/cwt. to $13.20/cwt. USDA projects that for the fourth quarter of 2003, U.S. average milk prices will be up $1.45-1.65/cwt. compared to the third quarter; including a $0.15 decrease-to-0.05 increase/cwt. Class 4b price change and a $0.10-$0.40 increase/cwt. Class 4a price change.

Utility Cow Prices

Comparing the third quarter of 2003 to the second quarter of 2003, average U.S. utility cow prices were up $3.30/cwt. to a national average of $49.84/cwt. USDA projects that utility cow prices will average $50-51 in the fourth quarter of 2003.

Information from the USDA-NASS publication "*Milk Production*" and the USDA-ERS publication: "*Livestock, Dairy, and Poultry Outlook.*"

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

LIST OF REPORTABLE CONDITIONS FOR ANIMALS AND ANIMAL PRODUCTS*

Animal Health Branch

JUNE 2002

Certain conditions pose or may pose significant threats to public health, animal health, the environment, or the food supply. Any licensed veterinarian, any person operating a diagnostic laboratory, or any person who has been informed, recognizes or should recognize, by virtue of education, experience, or occupation, that any animal or animal product is or may be affected by, has been exposed to, or may be transmitting or carrying any of the following conditions, must report that information.

Any animal disease not known to exist in the United States, any disease for which a control program exists, or any unexplained increase in the number of diseased animals or deaths must be reported. Any conditions caused by exposure to toxic substances that have or may have the potential to be a public health, animal health, or food safety threat must be reported within 24 hours.

Suspect conditions must be reported either to your closest Department of Food and Agriculture, Animal Health Branch (AHB) District Office: Redding 530-225-2140, Modesto 209-491-9350, Tulare 559-685-3500, Ontario 909-947-4462, the AHB Headquarters at 1220 N Street, Room A-107, Sacramento, California 95814, telephone 916-654-1447, facsimile 916-653-2215, email to cavet@cdfa.ca.gov, website at www.cdfa.ca.gov/ahfss/ah, or the USDA, Animal and Plant Health Inspection Services, Veterinary Services (VS) office at 916-857-6170 or toll free at 1-877-741-3690.

EMERGENCY CONDITIONS – Report to AHB or VS Employee within 24 Hours of Discovery

Multiple Species
- Anthrax (*Bacillus anthracis*)
- Livestock exposed to toxic substances which may threaten public health
- Screwworm myiasis (*Cochliomyia hominivorax* or *Chrysomya bezziana*)
- Unexplained increase in dead or diseased animals

Bovine
- African trypanosomiasis (Tsetse fly diseases)
- Bovine babesiosis (piroplasmosis)
- Bovine spongiform encephalopathy (Mad Cow)
- Contagious bovine pleuropneumonia (*Mycoplasma mycoides mycoides* small colony)
- Foot-and-mouth disease (Hoof-and-mouth)
- Heartwater (*Cowdria ruminantium*)
- Hemorrhagic septicemia (*Pasteurella multocida serotypes B:2 or E:2*)
- Lumpy skin disease
- Malignant catarrhal fever (African type)
- Rift Valley fever
- Rinderpest (Cattle plague)
- Theileriosis (Corridor disease, East Coast fever)
- Vesicular stomatitis

Caprine/Ovine
- Contagious agalactia *(Mycoplasma* species*)*
- Contagious caprine pleuropneumonia *(Mycoplasma capricolum capripneumoniae)*
- Foot-and-mouth disease (Hoof-and-mouth)
- Heartwater (*Cowdria ruminantium*)
- Nairobi sheep disease
- Peste des petits ruminants (Goat plague)
- Pulmonary adenomatosis (Viral neoplastic pneumonia)
- Rift Valley fever
- *Salmonella abortus ovis*
- Sheep and goat pox

Porcine
- African swine fever
- Classical swine fever (Hog cholera)
- Foot-and-mouth disease (Hoof-and-mouth)
- Japanese encephalitis
- Nipah virus
- Swine vesicular disease
- Teschen disease (Enterovirus encephalomyelitis)
- Vesicular exanthema
- Vesicular stomatitis

Commercial Poultry
- Exotic Newcastle disease (Viscerotropic velogenic Newcastle disease)
- Highly pathogenic avian influenza (Fowl plague)

Equine
- African horse sickness
- Dourine (*Trypanosoma equiperdum*)
- Epizootic lymphangitis (equine blastomycosis, equine histoplasmosis)
- Equine piroplasmosis (*Babesia equi, B. caballi*)
- Glanders (Farcy) (*Pseudomonas mallei)*
- Hendra virus (Equine morbillivirus)
- Horse pox
- Japanese encephalitis
- Surra (*Trypanosoma evansi*)
- Venezuelan equine encephalomyelitis
- Vesicular stomatitis
- West Nile Virus

Other Species
- Chronic wasting disease in cervids
- Viral hemorrhagic disease of rabbits (calicivirus)

**Pursuant to Section 9101 of the California Food and Agricultural Code and Title 9 Code of Federal Regulations Section 161.3(f)*

REGULATED CONDITIONS – Report to AHB or VS Employee within Two Days of Discovery

Multiple Species
- Rabies of livestock

Bovine
- Bovine brucellosis (*Brucella abortus*)
- Bovine tuberculosis (*Mycobacterium bovis*)
- Cattle scabies (multiple types)
- Trichomonosis (*Tritrichomonas fetus*)

Caprine/Ovine
- Caprine and ovine brucellosis (excluding *Brucella ovis*)
- Scrapie
- Sheep scabies (Body mange) (*Psoroptes ovis)*

Porcine
- Porcine brucellosis (*Brucella suis*)
- Pseudorabies (Aujeszky's disease)

Commercial Poultry
- Ornithosis (Psittacosis or avian chlamydiosis) (*Chlamydia psittaci*)
- Pullorum disease (Fowl typhoid) (*Salmonella gallinarum* and *pullorum)*

Equine
- Contagious equine metritis (*Taylorella equigenitalis*)
- Equine encephalomyelitis (Eastern and Western equine encephalitis)
- Equine infectious anemia (Swamp fever)

Other Species
- Brucellosis in cervids
- Duck viral enteritis (Duck plague) (all ducks)
- Tuberculosis in cervids

MONITORED CONDITIONS – Report by Monthly Summaries from Diagnostic Facilities

Multiple Species
- Avian tuberculosis (*Mycobacterium avium*)
- Echinococcosis/Hydatidosis (*Echinococcus* species)
- Leptospirosis

Bovine
- Anaplasmosis (*Anaplasma marginale* or *A. centrale)*
- Bluetongue
- Bovine cysticercosis (*Taenia saginata* in humans)
- Bovine genital campylobacteriosis (*Campylobacter fetus venerealis*)
- Dermatophilosis (Streptothricosis, mycotic dermatitis) (*Dermatophilus congolensis*)
- Enzootic bovine leukosis (Bovine leukemia virus)
- Infectious bovine rhinotracheitis (Bovine herpesvirus-1)
- Johne's disease (Paratuberculosis) (*Mycobacterium avium paratuberculosis*)
- Malignant catarrhal fever (North American)
- Q Fever (*Coxiella burnetii*)

Caprine/Ovine
- Bluetongue
- *Brucella ovis* (Ovine epididymitis)
- Caprine (contagious) arthritis/encephalitis
- Enzootic abortion of ewes (Ovine chlamydiosis) (*Chlamydia psittaci*)
- Johne's disease (Paratuberculosis) (*Mycobacterium avium paratuberculosis*)
- Maedi-Visna (Ovine progressive pneumonia)
- Q Fever (*Coxiella burnetii*)

Porcine
- Atrophic rhinitis (*Bordetella bronchiseptica, Pasteurella multocida*)
- Porcine cysticercosis (*Taenia solium* in humans)
- Porcine reproductive and respiratory syndrome
- Transmissible gastroenteritis (coronavirus)
- Trichinellosis (*Trichinella spiralis*)

Commercial Poultry
- Avian infectious bronchitis
- Avian infectious laryngotracheitis
- Duck viral hepatitis
- Fowl cholera (*Pasteurella multocida*)
- Fowl pox
- Infectious bursal disease (Gumboro disease)
- Low pathogenic avian influenza
- Marek's disease
- Mycoplasmosis *(Mycoplasma gallisepticum*)

Equine
- Equine influenza
- Equine rhinopneumonitis (Equine herpesvirus-1)
- Equine viral arteritis
- Horse mange (multiple types)

Captive-Raised Fish for Human Consumption
- Epizootic hematopoietic necrosis
- Infectious hematopoietic necrosis
- Onchorynchus masou virus disease
- Spring viremia of carp
- Viral hemorrhagic septicemia

Other Species
- Hemorrhagic diseases of deer (bluetongue, adenovirus, and epizootic hemorrhagic disease)
- Myxomatosis in commercial rabbits
- Tularemia in commercial rabbits

Cattle Producer Update

CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

Bovine Tuberculosis (TB) in California

On April 25, 2003, California was classified as **Modified Accredited Advanced (MAA)**, because bovine TB had been confirmed in three dairy herds since May 2002 - two in Tulare County and one in Kings County. All three herds were quarantined, the cattle destroyed and the affected premises cleaned and disinfected. Cattle sold from or associated with each herd are being traced and tested. California can reapply for Accredited Free status in April 2005, provided no additional infected herds are detected.

Update

As of November 30, 2003, 648,064 cattle in 480 herds have been tested for bovine TB since this investigation began, and about 13,000 cattle have been depopulated.

Cumulative Since May 13, 2002	
Number of herds tested	480
Number of animals tested	648,064
Number of herds quarantined	3
Number of cattle destroyed	~13,000
Average number of field personnel	30

TB Across the U.S.

Forty-six states are classified as Accredited Free. California, Texas and New Mexico are Modified Accredited Advanced and Michigan is Modified Accredited.

In November, Texas began its plan to regain free status. They aim to test all 880 dairies and 2,400 of their purebred beef herds. So far, 49 dairies and 31 beef herds have tested negative for bovine TB.

New Mexico is testing all herds associated with their two infected dairies, and Michigan continues testing herds associated with infected wildlife. Both Texas and New Mexico are contracting with private veterinary practitioners to complete this work; USDA and CDFA staff are doing California's testing.

Impact on Livestock Producers

To eradicate TB, any remaining cases must be detected on the farm or at slaughter. A national standard has been established for caudal fold tests (CFT) done by private practitioners: a minimum response rate of 1% is expected - this false-positive rate is due to various Mycobacterium species such as Johnes. Therefore, producers should expect some response to the CFT and plan for follow-up testing by government officials. Practitioners must feel injection sites for a TB response, and inform government officials when they find any. All responders must have a follow-up test on the neck to determine if the response is a false response, or due to bovine TB. Most responders are negative on the follow-up test; positive animals are subject to regulatory action.

Cattle Leaving California

All breeding cattle and bison leaving California require official identification and a negative official TB test within 60 days of being moved, unless they are:

- Moved to slaughter at an approved slaughter plant,
- From an accredited herd with a certificate showing the herd completed all testing for accredited status with negative results within one year before moving.

The TB requirements do not apply to sexually intact heifers moving to feedlots or steers and spayed heifers until **March 2004**. However, some states have more restrictive policies for moving cattle - always check with the state of destination for their requirements.

Breeding beef cattle 24 months of age and older moving to neighboring states annually for grazing on approved Pasture-to-Pasture permits require a TB test within 12 months of application for the permit and subsequently every three years to continue to move annually until California's TB status changes.

California's Eradication Plan

CDFA, USDA and the cattle industry are currently:

- Testing all dairies in Fresno, Kings and Tulare Counties (approximately 773,000 milking cows in 700 herds)
- Enhancing slaughter surveillance in all California's slaughter plants. This is highly effective in detecting TB - 2 out of the 3 infected herds were detected this way. The goal for good surveillance is to examine 1 sample per 2,000 adult cattle killed.
- Enhance live animal testing procedures through training and education
- Restrict Mexican feeder cattle to "designated" pastures/feedlots (proposed for 2004 import season)
- Prepare to apply for Free status in April 2005.

CDFA Animal Health Branch Offices	
Sacramento (HQ)	916-654-1447
Modesto	209-491-9350
Ontario	909-947-4462
Redding	530-225-2140
Tulare	559-685-3500
Tulare TB Task Force	559-687-1158
USDA/APHIS/VS 916-857-6170 or 877-741-3690	

Establishment of Increased Inspection and Brand Fees

The Bureau of Livestock Identification announces a change to the following brand inspection, brand renewal and permit fees effective February 1, 2004:

Sections 20754 (Brand Renewal), 21059 (40-mile permit), 21067 (50 mile permit), 21283 (brand inspection), and 21563 (hide inspection) of the California Food and Agricultural Code provides for applicable fees.

	New Fee
Hides	$ 1.30
Private Treaty In-State	$ 1.00
Private Treaty Out-of-State	$ 1.00
In-State Modified Point of Origin	$ 1.00
Out-of-State Pasture	$ 1.00
Slaughter	$ 1.00
Salesyard	$ 1.00
Saleyard to Feedlot	$ 0.30
Out-of-State to Feedlot	$ 0.30
Pasture to Feedlot	$ 0.50
Shipped out of CA Feedlot	$ 0.50
Brands	**New Fee**
Renewals	$ 60.00
Permits	**New Fee**
50 Mile - out-of-state	$ 50.00
40 Mile - modified point	$ 50.00
Minimum Service Charge	**New Fee**
	$ 10.00
	9 head or less

Please contact the Bureau at (916) 654-0889 if you have any questions.

Governor Schwarzenegger Appoints New Executive Staff Members to CDFA

Secretary Kawamura welcomes acting undersecretary and deputy secretaries

SACRAMENTO – CDFA Secretary A.G. Kawamura is pleased to welcome three new deputy secretaries and an acting undersecretary following their appointments by Governor Schwarzenegger.

Robert L. Wynn, Jr., a 31-year veteran of CDFA, has been appointed acting undersecretary. Wynn has served as statewide coordinator of the glassy-winged sharpshooter/Pierce's disease program and as director of the Division of Plant Health and Pest Prevention Services and the Division of Inspection Services.

Kim Myrman has been appointed to the position of deputy secretary. Myrman, who previously served as a deputy secretary from 1995 to 1997, is also a former director of Fairs and Expositions at CDFA. Most recently, Myrman was general manager of the Solano County Fairgrounds.

David Nunenkamp has been appointed as deputy secretary of legislation. Nunenkamp has more than 38 years of experience in state operations and government affairs and most recently served as chief environmental consultant to the Assembly Republican Caucus.

Christopher Nance has been appointed as deputy secretary of public affairs. Nance has nearly 20 years of experience in public relations and public affairs in government and the private sector. Most recently, Nance was director of internal communications for the California Farm Bureau Federation.

"This is an outstanding team that has the skill and dedication to assist Governor Schwarzenegger in bringing California back," said Secretary Kawamura. "Bob Wynn's deep expertise at CDFA, combined with the talent and experience of Kim Myrman, David Nunenkamp and Chris Nance, places us in perfect position to help our agency lead a renaissance for California agriculture and the entire state economy."

California Alfalfa Industry Prices and Trends

by Seth Hoyt, Senior Agricultural Economist, California Agricultural Statistics Service, USDA

This past year was challenging for alfalfa hay growers in California. Financial problems in the dairy industry weighed heavy on the hay market the first half of 2003. Spring rains and hot midsummer temperatures disrupted normal hay production and increased supplies of dry cow hay. This was bearish to the Fair-quality alfalfa hay market the second half of the year. While acreage and production of high-quality alfalfa hay were down from 2002, a resulting boost in prices did not occur. The strong demand for higher-test milk cow hay occasionally brought prices close to 2002 levels. Much of the year, prices were the lowest since 2000. According to sources, the carryover of milk cow-quality alfalfa into 2004 will be below normal. With lower average hay prices for the season and negative margins, many hay growers in 2003 were again looking for alternative crops to plant with more profit potential. The reality was that even with higher milk prices during the late summer and early fall of 2003, it would take time for some dairy producers to heal financially.

After a significant increase in alfalfa hay acreage in 2002 and a resulting weaker market from the previous year, California growers reduced alfalfa acreage in 2003 by 50,000 acres. Considering that dairy cow numbers had continued to grow at an annual rate of 60,000 head through the first quarter of 2003, some thought the 2003 alfalfa hay market in California might be close to 2002. This did not occur. The economically depressed dairy industry was a bearish factor. The hay carryover into 2003 was up from the previous year, but many dairies stretched supplies longer into the spring than many in the hay industry anticipated. Lower May 1, 2003 hay inventories, including a sharp drop in alfalfa hay shipments from out-of-state, and lower production of high-quality alfalfa hay did not translate into stronger prices. Alfalfa hay prices were running $5.00 to $15.00 per ton below 2002, according to Market News. Due to higher milk prices in the second half of the year, trading on alfalfa hay picked up in September and October, reducing grower inventories in some areas. The exceptions were the southern California desert area and the northern mountains, according to sources.

2003 California Alfalfa Hay Marketing Season Recap

Due to low milk prices and financial problems in the California dairy industry, supply-demand economics in the California alfalfa hay market the first half of 2003 did not appear to be performing as they have historically. During the spring and early summer, some dairies were extremely low on hay inventories before they made new purchases, some of which were only for short-term needs.

Two words that had a huge impact on the California alfalfa hay market in 2003 were “Milk Production.” California milk prices reached a 25-year low in the spring of 2003 and a record 12-month period of depressed milk prices ending in June 2003. According to the California Department of Food and Agriculture (CDFA), milk production in California has increased an average of 4.5 percent per year for the past 30 years. Consider that in March 2003 there were 3.1 billion pounds of milk produced in California compared to 2.1 billion pounds in March of 1994, an increase of 48 percent over the last nine years.

With December 1, 2002 hay stocks up 14 percent from the previous two years, dairy producers in California appeared to be carrying ample inventories of hay into 2003. Unlike the past few years, dairy producers were not actively purchasing new crop milk cow-quality alfalfa hay in the southern California desert in early 2003. Due to low milk prices and tight finances, dairies were using up old crop supplies and bearish on early new crop alfalfa prices. Granted, rain damage curtailed the amount of available milk cow-quality alfalfa offerings in the southern desert, but non rain-damaged higher-quality alfalfa only found light to moderate demand. Supreme-quality alfalfa hay, from the early cuttings in the desert, ranged mainly from $100.00 to $110.00 per ton, f.o.b., according to Market News. The lower alfalfa prices prompted some Imperial Valley growers to plant Sudan hay in the spring of 2003. Consequently, in the July Imperial Irrigation District (IID) Report, alfalfa hay acreage had declined 12 percent, while Sudan hay acreage was up 32 percent from 2002. According to Market News, Fair-quality alfalfa hay prices from January through October 2003 in the Imperial Valley averaged $68.64 per ton, f.o.b., the lowest since 1999.

Stronger milk prices and reduced dairy hay inventories boosted demand for alfalfa hay during the second half of 2003. California’s May hay stocks, estimated at 200,000 tons, were down 14 percent from 2002. Several factors caused the slip in milk production that began in mid-2003, which included lower TDN tests on spring and summer alfalfa hay cuttings, heavy dairy cow culling the first half of the year, changes in milk cow rations as dairy producers reduced feed costs, hot summer weather, and a drop in BST usage. Mother Nature played a big role in the increased amount of

(Continued on next page)

lower testing hay, with rain in the spring and very hot weather in midsummer. The slower growth in dairy cow numbers was evident in May and June, with the first month-to-month decline in California's dairy cow inventory since 1987. However, due to higher milk prices and an improved outlook, dairy cow numbers in July were 2,000 higher than in June.

In August and September, the dairy cow growth rate had rebounded to 4,000 cows per month and Holstein Springer heifers were topping around $1,800 per head in central California, up substantially from last spring. Over the past few years, California's dairy cow numbers have been growing an average of about 5,000 head per month. In the 12-month period ending September 2003, dairy cow growth in California was 46,000 head or an average of 3,800 head per month.

In an effort to reduce costs in 2003, and with tight supplies of higher testing hay, some dairies lowered their TDN requirements for milk cow hay. Rather than the 56 TDN or higher, an increased number were using hay that tested closer to 55 TDN. While milk cow-quality alfalfa hay found the best demand the second half of the season, dry cow hay was finding mixed demand, depending on the area of the State. In the central and northern valleys, dry cow hay movement was good late in the season. According to Market News, Supreme-quality alfalfa hay delivered to Tulare, Visalia, and Hanford dairies averaged $153.51 per ton in October 2003, compared to $158.03 in October of last year. In April of this year, Supreme-quality alfalfa delivered to the same areas averaged $147.00, compared to $167.95 per ton in April 2002. Fair-quality alfalfa hay delivered to Tulare, Visalia, and Hanford averaged $90.66 per ton in October 2003, compared to $97.29 in October of last year.

Dry Cow Hay

Hot and dry weather in some western states in 2003 significantly increased dry cow hay supplies in the West. As a result, alfalfa hay shipments into California from Nevada and Utah were down significantly from 2002. Some dairies in California that normally purchase milk cow-quality alfalfa hay in Nevada and Utah were looking elsewhere this year. In January through September 2003, alfalfa hay shipments into California from western states totaled 426,660 tons, according to the CDFA border stations. This is down 19 percent from 2002 and 22 percent below 2001. Alfalfa hay shipments from Nevada and Utah in August 2003 were down 55 percent at 25,354 tons, compared to 55,764 tons last year.

Two areas that had ample inventories of dry cow alfalfa hay in the fall of 2003 were the southern California desert and the northern mountains. Central California dairies were able to purchase sufficient dry cow hay in the central and northern valleys in 2003 without having to pay extra freight to bring hay in from the southern desert or the northern mountains. This put significant downward pressure on Fair-quality alfalfa hay prices in the northern and southern ends of the State. Normally, growers in the northern mountains produce high-quality milk cow alfalfa hay in the summer months. Unfortunately, they were hit with hot weather and rain in 2003, which significantly increased non-test hay production. In the Imperial Valley, sources indicated there were heavy supplies of dry cow alfalfa hay. Market News reported Fair-quality alfalfa hay was trading from $55.00 to $65.00 per ton the week ending October 31, 2003, compared to $80.00 to $90.00 in the southern desert the same week last year.

Bright Spots in the Market Place

Besides milk cow-quality alfalfa hay prices in the central and north-central valleys, a few other bright spots in the California hay market during 2003 were the alfalfa/grass mixes and Orchard grass hay for the horse/retail market, and Sudangrass and Kleingrass hay for export. While demand was disappointing for alfalfa hay and cubes for export in 2003, export demand was good for Sudan and Klein hay. Growers faced the continual challenge of meeting the quality specifications to obtain the top contract price on Sudan. Klein hay acreage in the Imperial Valley has been steadily increasing the past few years (the October 13 IID report showed 13,327 acres, up 25 percent from 2002). Export demand for Klein hay was good most of the season.

Market Factors and 2004 Outlook

In discussions with industry members throughout California, including seed company representatives, the

(Continued on next page)

sentiment was that alfalfa hay acreage would be the same or lower in their areas. However, in the central and southern San Joaquin valleys, most sources thought alfalfa acreage would be down in 2004. Due to the number of alfalfa acres in this area (five counties, including Kern, Tulare, Kings, Fresno, and Madera, had 446,476 acres in 2002, according to the county agricultural commissioners' reports), any reduction in alfalfa acreage could have a big impact on acreage statewide.

The main factor that could drive alfalfa acres lower in central California in 2004 is—cotton! Spot cotton prices in the San Joaquin Valley went from 58 cents in early September to the mid-to-high 70's in late October 2003. The prices in late October were 74.50 to 78 cents compared to 43.50 to 47 cents the same time last year. China's purchase of more than one million bales of U.S. cotton the third week of October (sources indicated this is about 10 percent of the annual U.S. cotton exports) pushed the cotton futures price to more than 80 cents per pound in late October. Some believe that alfalfa hay acreage switched to cotton in the central valley could push statewide alfalfa acres down in 2004.

Due to a lower processing tomato crop in 2003 (according to sources) and talk of stronger contract prices for the 2004 crop, some believe processing tomato acreage could displace alfalfa hay acreage in the central and northern valleys. Sources also believe Sudan hay acreage will be up in the central valley in 2004, with one source indicating that it could be close to 30,000 acres, around double the acreage from 2003. I would be surprised if Sudan acres were up in the Sacramento Valley after the bad experience many growers had in 2002. Growers, including some new to Sudan, found it very difficult to meet export-quality specifications and the resulting lower prices or rejected product caused some bad feelings. Additionally, due to strong rice prices, some growers in the Sacramento Valley may have another crop option.

The big question, how many alfalfa acres will there be in the southern California desert in 2004? According to the Palo Verde Irrigation District, 13,000 acres of alfalfa hay were taken out of production in that area from June through December 2003 due to a water deal with the Coachella Water District. Growers were working to put together another water deal that would hopefully, keep the 13,000 acres and possibly more out of production in 2004. What would the Fair-quality alfalfa hay market in the desert have been the second half of 2003, if those 13,000 acres had stayed in production? Alfalfa hay acreage in the Imperial Valley in October 2003 was still running about 19,000 less or 12 percent below last year. Sources believe that Imperial alfalfa hay acreage may continue to decline, as there appeared to be more dry cow hay production in 2003 than demand and utilization from Chino dairies. Alfalfa growers in the desert cannot continue to operate if dry cow hay prices remain at $55.00 to $65.00 per ton. In most years, dry cow alfalfa from the desert will not ship to the southern San Joaquin Valley.

Industry sources indicate that California's December 1, 2003 hay stocks could be higher than the previous year. However, opinions are mixed. Sources in the central and northern valleys indicate that inventories are the same or lower than a year ago. If the carryover is higher than last year, ample supplies in the extreme southern and northern areas may be the reason. I have been told that milk cow-quality alfalfa hay supplies at dairies (overall) in central and northern California are below a year ago. Sources indicated that some dairies will need milk cow hay by March and April of next year, earlier than in 2003. If this is true, the outlook for milk cow hay prices the first half of 2004 may be bullish. This could be positive for early alfalfa cuttings in the southern desert. If milk prices continue at profitable levels in 2004, high-quality alfalfa hay prices could be bullish all year. The dry cow alfalfa hay market will depend on how fast carryover supplies are traded and utilized, including supplies in Nevada. Weather will also be a big factor as we saw what the weather did to the dry cow alfalfa hay market in 2003.

Two other markets for hay in California are export and horse/retail. I have no idea what export demand will be for alfalfa hay in 2004, but it was not very good this year. It does appear that early demand for Sudan hay for 2004 is good. In October in central California, one exporter was offering contracts for the 2004 crop. Growers in the Imperial Valley, with the assistance of forage specialists, will hopefully, solve the problems they had with "Brown Leaf" in Sudan this year. If the Imperial Valley Bermuda hay quality improves during 2004, it could help export and horse/retail demand. Overall, quality was below normal in 2003 mainly due to

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weather. It appears that long-term demand for alfalfa/grass mixes and orchard grass hay is pretty solid. The dealer where I buy my horse hay was selling orchard grass and alfalfa/orchard grass mixes for $8.50 to $9.00 per bale this summer, while his alfalfa was selling for $2.00 per bale cheaper.

Alternative Feeds

What impact will alternative feeds have on hay prices in 2004? Talking with green choppers in central California this year, they indicated the corn for silage acres were about the same as 2002. Corn for silage acreage in California has increased from 200,000 in 1990 to 390,000 in 2002. Acreage jumped 75,000 or 24 percent higher in 2002 compared to 2001. If hay prices are stronger in 2004, will the corn for silage acreage move higher again? If milk prices soften in 2004, dairymen could follow the same pattern as the past year and substitute various feeds, including by-product feeds in order to cut costs. This is the main reason why concentrate fed to milk cows was down in 2002 and the first half of 2003, according to sources.

While very strong soybean meal prices, the highest in six years, may be bullish to alfalfa hay prices in some areas of the U.S., it will probably have only minimal effect in California. Many California dairies use canola pellets/meal or distillers dried grains in mixed rations and not soybean meal as a protein source. While the canola and distillers grain markets have been strengthened by the higher soybean prices, there appears to be ample supplies and prices are much more competitive than soybean meal. With the Bush administration pushing for more ethanol production to make the U.S. less dependent on foreign oil, and with the State of California to replace MTB in gas with ethanol, there may be an increased amount of distillers dried grains available in the years ahead. Feed corn prices, while up from the very depressed prices of 1999-2001, were still substantially below prices from the 1995-1997 period. The January through August 2003 average feed corn price was $2.13 per bushel, f.o.b. Iowa elevators, or just over $76.00 per ton, according to Market News. If you add the $25.00 per ton rail costs, this corn would deliver to California mills or receiving stations for about $101.00 per ton.

CONCLUSION

California's lower alfalfa hay prices in 2003 prompted alfalfa hay growers to look at alternative crops to plant for 2004. It appears that the strong cotton market in the fall of 2003 will convert alfalfa hay acreage in central and north-central California to cotton. Some alfalfa hay acreage in the central and northern valleys could be converted to processed tomatoes, if 2004 canning contracts are attractive. Alfalfa acreage in the southern desert could continue to decline due to very depressed prices on dry cow hay in 2003 combined with large inventories.

If, in fact, milk cow alfalfa hay supplies at California dairies are below a year ago, and given the rebound in dairy cow growth seen in August and September of 2003, alfalfa hay prices, particularly higher-quality hay may be stronger in 2004. Dry cow alfalfa hay price trends in some areas might lag behind higher-quality hay until carryover supplies are consumed. Stronger alfalfa hay prices could be dependent on milk prices holding at profitable levels, or at least higher than the very depressed prices in the first half of 2003. Any upturn in milk production that results in lower milk prices may be negative to the alfalfa hay market. However, it appears that in 2004, we may see further declines in alfalfa hay production and if dairy cow expansion continues, we could see a bullish alfalfa hay market in California.

Department Announces Pooling Plan Hearing Decision

Having carefully weighed the contents of the November 3, 2003 public hearing record, the Department has determined that the following changes are warranted.

- Any plant that does not process Class 1 or mandatory Class 2 milk products will continue to have the option to change its pool status. However, any change in plant status, whether it be pool or nonpool, must be adhered to for a minimum of twelve consecutive months.
- Any market milk from farms that have been depooled can only be repooled within a twelve–month period if it is physically shipped to a plant with Class 1 or mandatory Class 2 usage. A plant that purchases milk that was previously depooled and then pooled for less than twelve months will be charged by the pool based on the usage of the milk and will receive a credit for the milk at the overbase price.
- Handlers are permitted to use price estimation procedures for approximate payments to producers that have been reviewed and approved by the Pool Manager as alternatives to using prior month's pool prices.

The adjustments to the Pooling Plan will take effect for milk delivered to processing plants on or after January 1, 2004. Copies of the hearing determinations and a more detailed explanation of the decision may be obtained by contacting the Dairy Marketing Branch at (916) 341-5988. You may also download copies from the Department's website at www.cdfa.ca.gov/dairy.

2004 Assessment Rates Established for the CMAB and the CMMAB

The Department recently approved the 2004 assessment rates applicable to the California Milk Advisory Board (CMAB) and the California Manufacturing Milk Advisory Board (CMMAB). These two producer-funded programs conduct dairy promotion and research activities on behalf of California's dairy farmers.

The 2004 CMAB assessment rate for market milk and the 2004 CMMAB assessment rate for manufacturing milk have both been set at ten cents **($0.10)** per hundredweight. These rates are unchanged from the 2003 rates.

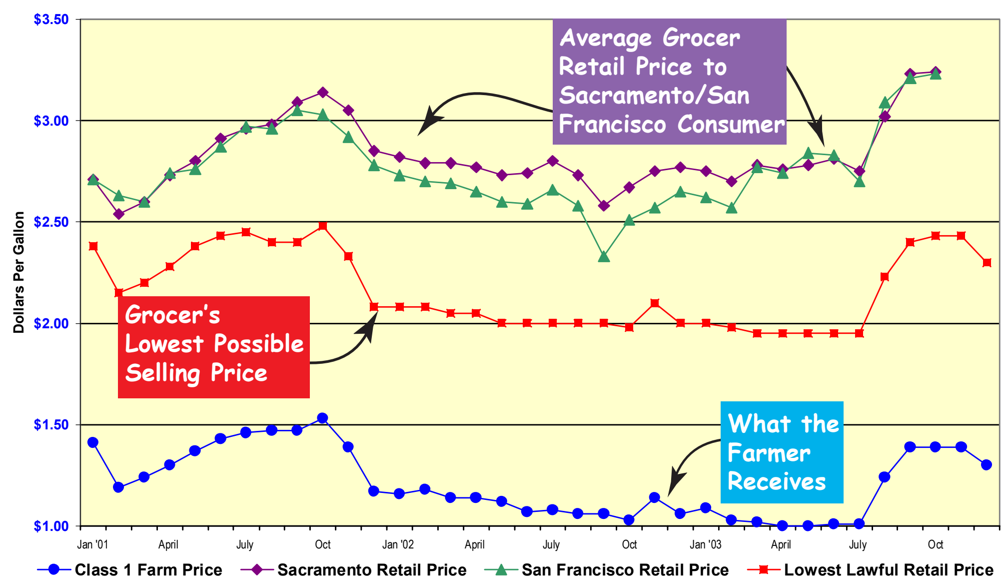
As in the past, these assessments will be collected from the first handlers who purchase or otherwise acquire possession of milk from producers. Each handler shall in turn deduct such assessments from payment owed to their producers. These assessments are authorized separate and apart from the fifteen-cent ($0.15) assessment of the National Dairy Promotion and Research Board (NDPRB), but qualify California milk producers for a credit toward the NDPRB assessment. Please call the CDFA Marketing Branch at (916) 341-6005 if you have any questions about these assessments.

Price Comparison: Class 1 Farm Prices, Average Whole Milk Retail Prices, Lowest Lawful Whole Milk Retail Prices - Northern and Southern California

Northern California:

- The average price spread between what the farmer receives and the CDFA issued lowest lawful retail price was $0.88-$1.04
- Los Angeles average retail whole milk price averaged from $0.41-$0.78 over the lowest lawful price
- San Diego average retail whole milk price averaged from $0.29-$0.77 over the lowest lawful price

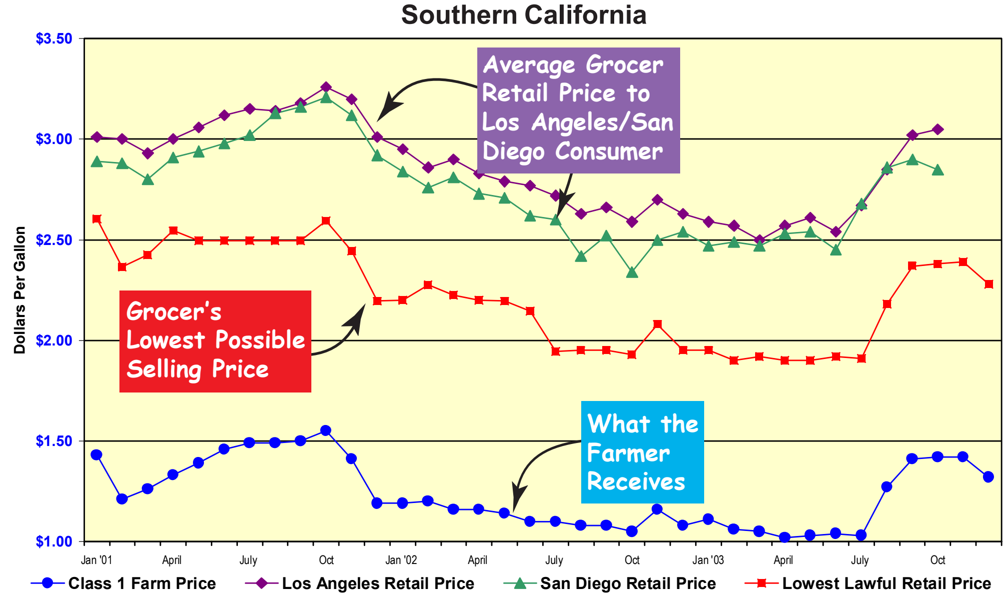
Northern California



Southern California:

- The average price spread between what the farmer receives and the CDFA issued lowest lawful retail price was $0.84-$1.22
- Sacramento average retail whole milk price averaged from $0.33-$0.86 over the lowest lawful price
- San Francisco average retail whole milk price averaged from $0.33-$0.89 over the lowest lawful price

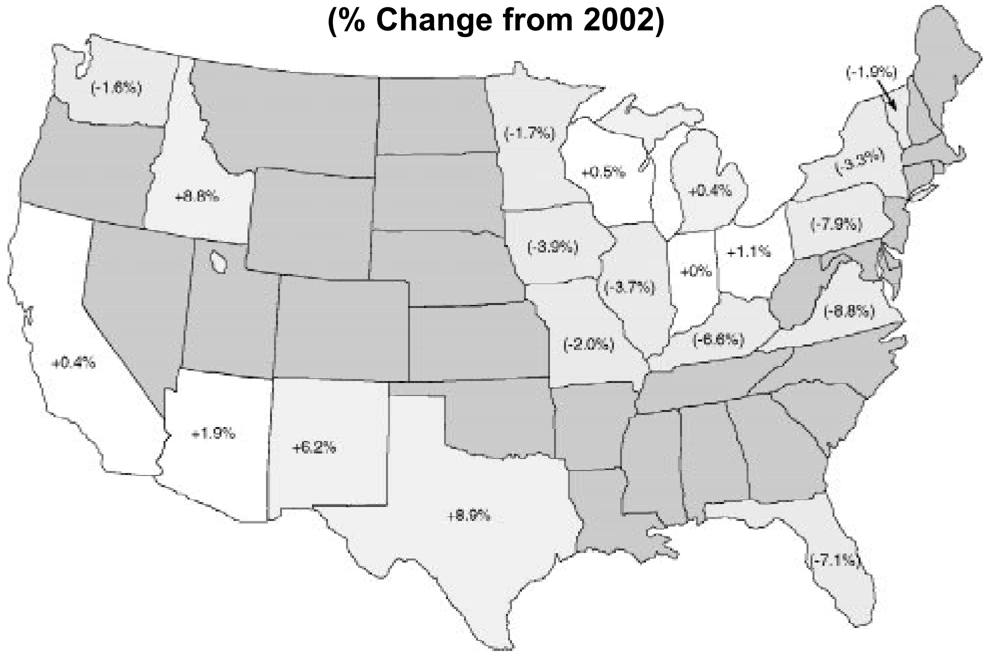
Southern California



Reprinted from the California Dairy Information Bulletin, January 2004 issue.

November Milk Production in the Top 20 States

(% Change from 2002)



<u>For the U.S. overall, comparing November 2003 to November 2002:</u>

- Milk production during November was down 0.6%
- The number of cows on farms was 9.007 million head, down 139,000 head
- Production per cow averaged 1,488 pounds, 14 pounds more than November 2002
- Eleven of the top twenty producing states showed an decrease in milk production

As reported by USDA

Milk Production Cost Index for California

Month	North Coast 1/		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
	Dollars per Hundredweight									
January	13.86	13.90	12.97	13.00	12.90	12.68	13.10	12.95	13.0110	12.8796
February	13.86	13.90	12.97	13.00	12.90	12.68	13.10	12.95	13.0110	12.8796
March	13.91	13.98	12.50	12.52	12.49	12.19	12.98	13.12	12.6245	12.5197
April	13.91	13.98	12.50	12.52	12.49	12.19	12.98	13.12	12.6245	12.5197
May	12.99	13.48	12.50	12.53	12.94	12.34	13.05	13.82	12.8019	12.6875
June	12.99	13.48	12.50	12.53	12.94	12.34	13.05	13.82	12.8019	12.6875
July	13.30	13.65	12.59	12.91	13.57	12.87	13.42	13.95	13.1835	13.0864
August	13.30	13.65	12.59	12.91	13.57	12.87	13.42	13.95	13.1835	13.0864
September	13.92	14.21	12.89	13.10	13.39	12.86	13.70	13.77	13.2803	13.1395
October	13.92	14.21	12.89	13.10	13.39	12.86	13.70	13.77	13.2803	13.1395
November			12.99		12.78		13.26		12.9767	
December			12.99		12.78		13.26		12.9767	

1/ Beginning with the January-February 2003 cost period, Del Norte/Humboldt and North Bay cost regions are combined and reported as the North Coast Region.

Hundredweight Pool Prices

Month	Quota	Overbase
May '02	$12.06	$10.36
June	$11.60	$ 9.90
July	$11.28	$ 9.58
August	$11.48	$ 9.78
September	$11.58	$ 9.88
October	$11.84	$10.14
November	$11.44	$ 9.74
December	$11.48	$ 9.78
January '03	$11.40	$ 9.70
February	$11.11	$ 9.41
March	$10.93	$ 9.23
April	$11.02	$ 9.32
May	$11.05	$ 9.35
June	$11.17	$ 9.47
July	$12.72	$11.02
August	$13.96	$12.26
September	$14.34	$12.64
October	$14.45	$12.75
November	$13.56	$11.86

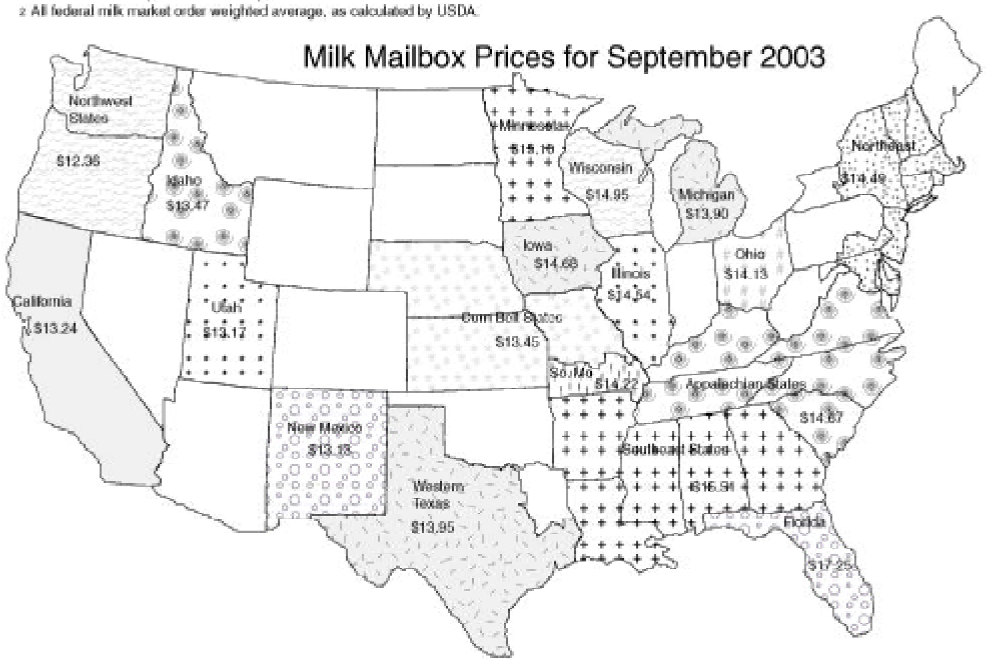
Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

••	February	March•	April	May•	June•	August	September
California•[1]	$10.06•	$10.26•	$10.13•	$10.13•	$11.53 •	$12.75•	$13.24 •
USDA[2]	$10.73•	$10.79•	$10.83•	$10.77•	$11.60•	$12.91•	$14.28•

[1] California mailbox price calculated by CDFA.
[2] All federal milk market order weighted average, as calculated by USDA.

Milk Mailbox Prices for September 2003



In September 2003, mailbox milk prices for selected reporting areas in Federal milk orders averaged $14.28 per cwt., $1.37 more than the figure for the previous month. The component tests of producer milk in September 2003 were butterfat, 3.61%; protein, 3.02%; and other solids 5.68%. On an individual reporting area basis, mailbox prices increased in all reporting areas, and ranged from $17.25 in Florida to $12.36 in the Nothwestern States. In September 2002, the Federal milk milk order all-area average mailbox price was $11.40, $2.88 lower.

Note: The mailbox price data series includes producer milk marketings that were not pooled under the Federal milk order system due to disadvantageous price relationships.

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